

Message Text

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PASS TREASURY, FEDERAL RESERVE, CEA

E.O. 11652: N/A
TAGS: EFIN, OECD
SUBJECT: TWP DISCUSSION OF BALANCE OF PAYMENTS OF
SMALLER OECD COUNTRIES

REF: (A) STATE 41971, (B) CPE/TWP(77)1,
(C) OECD PARIS 5945

1. BEGIN SUMMARY. AS REQUESTED REF A, THIS MESSAGE
TRANSMITS DETAILED 1976 DEVELOPMENTS AND FUTURE PROS-
PECTS OF THOSE SMALLER OECD COUNTRIES WHICH HAVE
RELATIVELY WEAK BALANCE OF PAYMENTS, AS REPORTED BY
THEM AT FEB. 25 MEETING OF TEMPORARY WORKING PARTY
(TWP) OF ECONOMIC POLICY COMMITTEE. (REF C CONVEYED
OVERALL CONCLUSIONS OF TWP DISCUSSION.) COUNTRIES
EXAMINED WERE SPAIN, PORTUGAL, GREECE, TURKEY, DENMARK,
FINLAND AND NEW ZEALAND. AUSTRIA, SWEDEN AND AUSTRALIA
ALSO REVIEWED BRIEFLY. ALL FIGURES IN BILLIONS OF
DOLLARS UNLESS OTHERWISE SPECIFIED. END SUMMARY.
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2. SPAIN

(A) CURRENT ACCOUNT DEFICIT (CAD). 1976 CAD OF 4.3
COMPOSED OF DEFICIT OF 7.3 ON TRADE OFFSET BY SURPLUSES
OF 1.9 ON SERVICES AND 1.1 ON REMITTANCES OF WORKERS
ABROAD. DETERIORATION AT YEAR-END REFLECTED SURGE OF

OIL IMPORTS (PARTLY PRECAUTIONARY STOCKING, BUT ALSO RESULT OF DROUGHT AND LACK OF CONSERVATION), HIGH ROYALTY PAYMENTS AND TOURIST RECESSION, LATTER BEING CONSEQUENCE OF GLOBAL SLUMP RATHER THAN FACTORS PECULIAR TO SPAIN. EXPORTS OF GOODS AND SERVICES ROSE 6.5 PERCENT IN REAL AND 13.5 PERCENT IN NOMINAL TERMS; IMPORTS INCREASED 6 PERCENT AND 16 PERCENT, RESPECTIVELY. IN 1977 CAD FORECAST AT 4, OF WHICH 7.5 TRADE DEFICIT OFFSET BY SURPLUS OF 2.3 ON SERVICES AND 1.2 ON REMITTANCES. IMPORTS WOULD GROW MORE SLOWLY (2.9 PERCENT IN REAL TERMS) AS RESTOCKING HAD BEEN LARGELY COMPLETED, AND BETTER TOURISM WOULD IMPROVE SERVICE EARNINGS (PERHAPS 3.6 PERCENT REAL AND 10 PERCENT IN NOMINAL TERMS), WHICH COULD EXCEED 2.3--I.E., CAD OF 4 MIGHT BE PESSIMISTIC (SECRETARIAT FELT 4 WAS OPTIMISTIC FORECAST). SPANISH REP SAID LARGE CAD WAS TEMPORARY--PARTLY FAILURE TO ADJUST IN 1974 (WHICH SUBSEQUENTLY CONTINUED TO BE THE CASE AS RESULT OF NECESSARY POLITICAL TRADE OFF IN FAVOR OF SOCIAL AND EMPLOYMENT BOOSTING MEASURES) AND PARTLY CYCLICAL WEAKNESS OF TOURISM.

(B) FINANCING. CONSIDERABLE INFLOW OF LONG-TERM CAPITAL OF ABOUT 3 (OF WHICH 0.3 DIRECT INVESTMENT, 1.8 PRIVATE BORROWING, 0.9 PUBLIC BORROWING) COUPLED WITH SHORT TERM INFLOW OF 0.5 AND RESERVE USE OF 1 RESULTED IN SMOOTH FINANCING. IN 1977 DIRECT INVESTMENT EXPECTED TO RISE SUBSTANTIALLY IN VIEW OF IMPROVED POLITICAL SITUATION, AND THUS TOTAL EXTERNAL DEBT WOULD RISE MORE SLOWLY TO AROUND 12.5 AT YEAR END. DEBT WAS 5.5 AT END 1974, 8.0 AT END 1975, AND 10.7 AT LIMITED OFFICIAL USE

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END 1976--LATTER FIGURE COMPRISED OF 5.9 IN PUBLIC DEBT, 4.3 PRIVATE LONG TERM AND 0.5 SHORT TERM. 1977 FINANCING NOT EXPECTED TO PRESENT DIFFICULTIES. DEBT WOULD NOT RISE RELATIVE TO EXPORTS, AND IT NOW TOTALS ONLY TWICE LEVEL OF RESERVES.

(C) POLICIES FORESEEN. CHANGES AFTER ELECTIONS CANNOT BE EXCLUDED. SOME MEASURES TO BE ANNOUNCED BEGINNING OF MARCH INCLUDE PRICE RESTRAINTS AND EXPORT PROMOTION (IMPORT SURCHARGE WILL NOT BE RENEWED). WAGE RESTRAINTS DIFFICULT TO ACHIEVE.

3. PORTUGAL

(A) CURRENT ACCOUNT DEFICIT. 1976 CAD WAS 1.1 (7 PERCENT OF GDP) INCLUDING TRADE DEFICIT OF 2.0 (IMPORTS UP 28 PERCENT, EXPORTS ONLY 10 PERCENT). OIL AND FOOD IMPORTS UP SHARPLY. INVISIBLES EARNINGS, MAINLY TOURISM, IMPROVED IN SECOND HALF, AS DID WORKERS' REMIT-

TANCES. FOR 1977 GOP HAS TARGET CAD OF 0.7, WITH
DEFICIT OF 1.8 ON GOODS AND SERVICES PARTLY OFFSET BY

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PRIVATE TRANSFER RECEIPTS (REMITTANCES) OF 1.1. MAIN
PROBLEM IS DIFFICULTY IN INCREASING RATE OF GROWTH OF
EXPORTS EVEN STARTING FROM LOW BASE. EXPORTS ARE NON-
DIVERSIFIED, AND STRUCTURAL PROBLEMS EXIST. IN 1976,
GDP PROBABLY ROSE ONLY A LITTLE MORE THAN 3 PERCENT AS
AGRICULTURAL OUTPUT DROPPED; INDUSTRIAL PRODUCTION
INCREASED 4.2 PERCENT IN FIRST TEN MONTHS. NOMINAL GDP
INCREASED 26 PERCENT, EXPECTED TO RISE 23 PERCENT IN
1977.

(B) FINANCING. DEFICIT ON NON-MONETARY CAPITAL IN
1976 WAS ABOUT 1, BRINGING FINANCING REQUIREMENT TO 2.1.
(NOTE: DETAIL PRESENTED WAS INCOMPLETE.) LOANS FROM
BIS, BUNDESBANK AND OTHER EUROPEAN CENTRAL BANKS BROUGHT
IN \$415 MILLION. RECOURSE TO IMF WAS SDR 173 MILLION.
SITUATION AT BEGINNING OF 1977 IS DIFFICULT--NET RESERVES
JUST \$150 MILLION (GOLD IN THIS CALCULATION VALUED AT
SDR 35/OZ., ON OTHER HAND 40 PERCENT IS COLLATER-
ALIZED). FOR 1977, BANK OF PORTUGAL HAS NEGOTIATED \$170
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MILLION LOAN FROM EUROPEAN CENTRAL BANKS OF WHICH \$50 MILLION ALREADY DRAWN; US HAS PROVIDED \$300 MILLION FACILITY, OF WHICH \$50 MILLION DRAWN. TALKS UNDERWAY WITH IMF FOR FIRST CREDIT TRANCHE (\$48 MILLION). BUT PRIVATE CAPITAL MARKET DIFFICULT FOR THE MOMENT (E.G., NEGOTIATIONS WITH BANKING SYNDICATE FOR \$300 MILLION HAVE BEEN SUSPENDED), AND GOP IS VERY WORRIED ABOUT PROSPECT FOR SECOND HALF OF YEAR, EVEN THOUGH CAD IS EXPECTED TO NARROW THEN. (PORTUGUESE REP ADMITTED THAT 0.7 CAD FORECAST MIGHT BE OPTIMISTIC AS IT WAS BASED ON ASSUMPTION OF SMALLER THAN ACTUAL 1976 DEFICIT.)

(C) POLICIES FORESEEN. REDUCED TRADE DEFICIT IN SECOND HALF OF 1976 REFLECTED GOVERNMENT MEASURES, MAINLY IMPORT SURCHARGE. MAY HAVE FURTHER RECOURSE TO RESTRICTIONS IF IMPORTS GROW SIGNIFICANTLY (1977 TARGET IS ZERO GROWTH OF IMPORTS, 11.5 PERCENT GROWTH OF EXPORTS IN REAL TERMS). GOP ATTACHES GREAT IMPORTANCE TO ATTRACTING DIRECT INVESTMENT, AND INVESTMENT CODE IS NOW BEING REVISED. HOWEVER, NOT MUCH INCREASE FROM EXISTING INSIGNIFICANT INFLOW EXPECTED. (NOTE: PORTUGUESE REP IN NO WAY SIGNED GOP MEASURES ANNOUNCED NEXT DAY.) EXPANSION IN STRONGER COUNTRIES WOULD BE HELPFUL TO EXPORTS, REMITTANCES AND TOURISM.

4. GREECE

(A) CURRENT ACCOUNT DEFICIT. 1976 CAD WAS 1.063. TRADE BALANCE DETERIORATED SLIGHTLY, PRIMARILY DUE TO END OF DESTOCKING AND ANTICIPATORY OIL IMPORTS, BUT THERE WERE SOME PROBLEMS ON EXPORT SIDE. TOURISM RECEIPTS ROSE CONSIDERABLY AS FAVORABLE PRICES INCREASED VOLUME. SHIPPING RECOVERED IN SECOND HALF. TRANSFER RECEIPTS DROPPED SHARPLY (LARGELY FROM WORKERS IN FRG). IN 1977 CAD EXPECTED TO SHOW LITTLE CHANGE (ROUGHLY 1.1). TOURISM RECEIPTS WILL RISE SHARPLY (MAINLY REFLECTING LIMITED OFFICIAL USE

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PRICE RISES) BUT OUTLOOK FOR WAGE TRANSFERS FROM FRG IS TROUBLESOME (NO INCREASE SEEN). OVERALL, HOWEVER, PRESENT DEFICIT REFLECTS MAINLY IMPACT OF OIL PRICES (OIL IMPORTS ABOUT \$700 MILLION) AND LARGE IMPORTS OF OTHER COMMODITIES, LARGELY CONSUMER GOODS, WHICH GREECE EXPECTS TO REDUCE IN FUTURE. GOG HOPES TO DEVELOP EXPORT INDUSTRIES AND LOOKS FORWARD TO NEAR TERM BENEFIT FROM FASTER

EUROPEAN GROWTH.

(B) FINANCING. AMORTIZATION PAYMENTS RAISED FINANCING REQUIREMENT IN 1976 TO 1.5 WHICH WAS VIRTUALLY COVERED BY AUTONOMOUS CAPITAL INFLOW OF 1.2, OF WHICH 0.5 REFLECTED EMIGRANTS' FOREIGN CURRENCY DEPOSITS IN GREECE, 0.25 REAL ESTATE, AND PERHAPS 0.2 PRIVATE FOREIGN BORROWING. COMPENSATORY BORROWING TOTALLED \$233 MILLION, AND THERE WAS SOME RECOURSE TO IMF. SINCE AMORTIZATION EXCEEDED BORROWING, EXTERNAL DEBT DECLINED. AMORTIZATION PAYMENTS WILL JUMP IN 1977 DUE TO LUMP IN REPAYMENT SCHEDULE, BUT AUTONOMOUS CAPITAL INFLOW WILL COVER CAD SO THAT COMPENSATORY BORROWING WILL BE LIMITED TO COVERING DEBT REPAYMENTS (PERHAPS \$350 MILLION). EURO-DOLLAR MARKET IS MOST LIKELY CHANNEL, AND NO PROBLEM IS FORESEEN.

(C) POLICIES FORESEEN. NO SPECIFIC MEASURES INDICATED. GREEK REP INDICATED THAT GOG PERFECTLY WILLING TO RUN CAD AND ACCUMULATE DEBT TO EXTENT THIS DEFICIT

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DUE TO IMPORT OF CAPITAL GOODS. FASTER GROWTH IN OECD
WOULD HELP EARNINGS FROM BOTH EXPORTS AND SERVICES.

5. TURKEY

(A) CURRENT ACCOUNT DEFICIT. CAD WAS 1.879 IN 1975 AND 2.263 IN 1976. EXPORT RISE IN 1976 OF 40 PERCENT STILL SMALLER THAN EXPECTED (EXPORT BASE IS VERY LOW RELATIVE TO GNP). IMPORTS UP 8.2 PERCENT. TOURISM AND WORKERS' REMITTANCES FELL \$400 MILLION; THIS LARGELY REFLECTED RECESSION IN EUROPE. (GNP GROWTH WAS 7.2 PERCENT, WITH INDUSTRIAL PRODUCTION UP 13.5 PERCENT. INVESTMENT INCREASED 35.4 PERCENT. INFLATION WAS 19.1 PERCENT COMPARED TO 10 PERCENT IN 1975.) IN 1977, CAD OF 2.075 IS EXPECTED. WORKERS' REMITTANCES MAY INCREASE TO 1.1. TRADE DEFICIT EXPECTED TO BE 3.3 (EXPORTS 2.5, UP 27.5 PERCENT; IMPORTS 5.8, UP 13.1 PERCENT). GNP EXPECTED TO INCREASE 8.2 PERCENT.

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(B) FINANCING. IN 1976, NET CAPITAL INFLOW WAS 1.7 (INCLUDING 0.7 INCREASE IN CONVERTIBLE CURRENCY ACCOUNTS --REMAINDER FROM MEDIUM TERM BANK CREDITS). IMF RECOURSE WAS .14 AND NET RESERVE USE WAS .119. IN 1977 NO FURTHER RESERVE IS CONTEMPLATED, BUT FURTHER .12 EXPECTED FROM IMF (IMPLYING NET CAPITAL INFLOW OF ALMOST 2). TURKISH REP ADMITTED THAT SHORT TERM INFLOW FROM LEADS AND LAGS HAD BEEN ACHIEVED THROUGH "ADMINISTRATIVE" DELAYS OF AUTHORIZATION OF PAYMENTS--NOW AVERAGING ONE MONTH. SHORT TERM FINANCE IS AVAILABLE BUT TERMS ARE UNSATISFACTORY. TURKEY HAS NO QUALMS IN GENERAL REGARDING INCREASE OF DEBT. REP EMPHASIZED NEED FOR OBTAINING LONGER MATURITIES AND BETTER TERMS ON BORROWINGS, SUGGESTING THAT OECD COUNTRIES MIGHT ASSIST TURKEY IN FLOATING BONDS. TURKEY IS TRYING TO FACILITATE DIRECT INVESTMENT BUT LIKELY AMOUNTS WOULD NOT BE SIGNIFICANT IN COMPARISON WITH CAD.

(C) POLICIES FORESEEN. TURKISH REP PROVIDED SUBJECTIVE DESCRIPTION OF ECONOMIC POLICY GOALS: INCREASE EMPLOYMENT; MOBILIZE SAVINGS; ENLARGE EXPORT SECTOR; MAINTAIN REASONABLE FINANCIAL STABILITY; NEED TO CONTINUE IMPORT GROWTH FOR DEVELOPMENT PURPOSES. HE DESCRIBED EXISTING MONETARY AND FINANCIAL POLICIES AS "MORE SELECTIVE". SOME STEPS TO FOSTER BETTER EXPORT INSURANCE AND CREDIT BEING TAKEN.

6. DENMARK

(A) CURRENT ACCOUNT DEFICIT. CAD WILL DECLINE FROM 1.9 IN 1976 TO 1.4 IN 1977, WITH ZERO GROWTH IN IMPORT

VOLUME FORESEEN. FURTHER DECLINE EXPECTED IN 1978 AND 1979. DEFICIT RESULTS IN LARGE PART FROM DEMAND STIMULUS (REPRESENTING 3 AND 4 PERCENT OF GNP) UNDERTAKEN IN 1975 AS PART OF EEC PROGRAM WHICH SPILLED OVER INTO IMPORTS.

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(B) FINANCING. WITH PRIVATE CAPITAL INFLOWS SMALL IN 1976, CAD WAS FINANCED IN NON-TRADITIONAL MANNER VIA PUBLIC BORROWING. DEBT STRUCTURE LENGTHENED. PRIVATE INFLOWS WILL INCREASE IN 1977 BUT PUBLIC BORROWING (LARGELY ALREADY CONTRACTED) WILL STILL ACCOUNT FOR THREE-FOURTHS OF FINANCING. NO DIFFICULTIES FORESEEN.

(C) POLICIES FORESEEN. WITH HELP OF INCOMES POLICIES DENMARK HOPES IN 1977 TO ACHIEVE 2 PERCENT REAL GROWTH, 6 PERCENT NOMINAL. MAJOR IMPACT ON CAD WILL COME LATER. WOULD PREFER NO DEFICIT VIA GOOD EXPORT PERFORMANCE, BUT NOT PREPARED TO FORCE CURRENT ACCOUNT INTO NEAR TERM EQUILIBRIUM AS THIS WOULD INVOLVE UNACCEPTABLE CONFLICT WITH DOMESTIC OBJECTIVES (EMPLOYMENT). DANISH REP SAID OECD COULD PULL ITSELF UP BY ITS OWN BOOTSTRAPS IF STRONG COUNTRIES SUCH AS US, FRG AND SWITZERLAND WOULD JOIN TOGETHER IN BOOSTING ECONOMIES. ALSO, HE CONSIDERED THAT "BETTER RECYCLING" OF CAPITAL WOULD BE IN THE INTEREST OF STRONGER COUNTRIES. NO IMPORT RESTRICTIONS CONTEMPLATED.

7. FINLAND

(A) CURRENT ACCOUNT DEFICIT. CAD UNDERWENT IMPROVEMENT IN 1976, DECLINING FROM 2.173 IN 1975 TO ABOUT 1.1 (I.E., TO 4 PERCENT OF GNP FROM 8 PERCENT IN 1975). IN 1976, THE VALUE OF IMPORTS ROSE JUST 2 PERCENT WHILE

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VISIBLE EXPORTS INCREASED 20 PERCENT, IN REAL TERMS.
EXPORT IMPROVEMENT CYCLICAL WHILE IMPORTS KEPT DOWN BY
RESTRICTIVE ADJUSTMENT POLICIES. IN 1977 MUCH DEPENDS
ON DEVELOPMENTS IN OTHER COUNTRIES, BUT CAD WILL CERTAIN-
LY BE SMALLER, PERHAPS IN 0.4 TO 0.8 RANGE. COMMODITY
EXPORTS WILL GROW LESS RAPIDLY, AND TIGHT MONETARY POLICY
SHOULD IMPEDE IMPORTS. THERE WAS A TRADE SURPLUS IN
JANUARY.

(B) FINANCING. 1976 CAD FINANCED BY 1.05 NET IMPORTS
OF LONG TERM CAPITAL, .05 OF SHORT TERM CAPITAL AND
SLIGHT REDUCTION IN RESERVES. BORROWING RATHER THAN
DIRECT INVESTMENT ACCOUNTED FOR VIRTUALLY ALL LONG TERM
CAPITAL INFLOW, OF WHICH 28 PERCENT WAS BY FINANCIAL
INSTITUTIONS, 55 PERCENT BY CORPORATIONS, 13.5 PERCENT
BY CENTRAL GOVERNMENT AND 3 PERCENT BY LOCAL GOVERNMENTS.
DECREASE IN PRIVATE BORROWING REFLECTED STRICTER
SCRUTINY OF APPLICATIONS BY CENTRAL BANK RATHER THAN
DIMINISHED AVAILABILITY OF FUNDS. INCREASE OF DEBT SINCE
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1974 IS UNACCEPTABLE AS TREND, ALTHOUGH PRESENT RATE IS
MANAGEABLE. NO DIFFICULTIES IN OBTAINING FURTHER CREDITS
SEEN--WITNESS AAA RATING IN NEW YORK. ONLY OBSTACLE IS
RELUCTANCE OF FINLAND TO INCUR FURTHER DEBT.

(C) POLICIES. FINLAND DOES NOT CONSIDER ITSELF TO
BE A PROBLEM COUNTRY. HOWEVER, GENERAL ECONOMIC SITUA-
TION IS DISCOURAGING SINCE INFLATION IS STILL IN DOUBLE
DIGITS AND GROWTH IS SLUGGISH. FASTER GROWTH BY STRONGER
OECD COUNTRIES IS ESSENTIAL. NO NEW IMPORT RESTRICTIONS
ARE CONTEMPLATED.

8. NEW ZEALAND

(A) CURRENT ACCOUNT DEFICIT. WITH REAL ECONOMY STAGNATING, CAD DECLINED FROM 1.6 IN 1975 TO AROUND 0.7 - 0.8 IN 1976 (OR 6 PERCENT OF GNP). FURTHER CAD REDUCTION TO PERHAPS 0.4 TO 0.5 EXPECTED IN 1977, BUT THIS APPEARS TO BE NEAR THE LIMIT OF POTENTIAL ADJUSTMENT, BARRING UNEXPECTED RECOVERY IN TERMS OF TRADE WHICH PLUNGED THROUGH EARLY 1976, I.E., DEFICIT OF THIS MAGNITUDE IS CONSIDERED STRUCTURAL.

(B) FINANCING. NO DIFFICULTIES ENCOUNTERED SO FAR AND NONE FORESEEN IN NEAR FUTURE. HOWEVER, CURRENT TREND OF DEBT ACCUMULATED IS NOT MANAGEABLE OVER LONGER RUN. 1977 FINANCING NEEDS WILL TOTAL AROUND 0.5, OF WHICH PRIVATE BORROWING WILL ACCOUNT FOR LESSER PORTION. DEBT AT END-JANUARY TOTALLED 2.5; DEBT SERVICING AMOUNTED TO 5 PERCENT OF EXPORTS BUT COULD RISE TO 10 TO 15 PERCENT BY 1982.

(C) POLICIES FORESEEN. DEMAND MANAGEMENT WILL CONTINUE TO BE TIGHT BUT SCOPE IS LIMITED. GNZ WILL TRY TO ENCOURAGE ENERGY CONSERVATION AND BOOST EXPORTS, BUT TRADE BARRIERS TO EXPORTS (LARGELY AGRICULTURAL) ARE LIMITED OFFICIAL USE

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FORMIDABLE. IMPORT RESTRICTIONS ARE UNDESIRABLE, BUT GNZ MIGHT CONCEIVABLY BE DRIVEN TO THEM. FIRST ROUND EFFECT OF HYPOTHETICAL INCREASE IN FRG GROWTH RATE IS ADMITTEDLY SMALL. WOULD BE MORE IMPORTANT IF FASTER GROWTH PERMEATED ENTIRE OECD AREA AND IF TRADE BARRIERS TO GNZ GOODS WERE REDUCED. GREATER EXTERNAL DEMAND WOULD ALSO HELP IN NECESSARY STRUCTURAL SHIFT FROM AGRICULTURE TO MANUFACTURING.

9. AUSTRIA

1976 CAD INCREASED TO ABOUT 1.5 FROM 0.3 IN 1975. 1977 CAD WILL PERHAPS BE SLIGHTLY SMALLER THAN 1.5 FORECAST BY SECRETARIAT. EXPORTS EXPANDED VERY RAPIDLY IN 1976 BUT IMPORTS GREW EVEN FASTER (23 PERCENT). IN 1977 EXPORTS EXPECTED TO GROW BY 14 PERCENT AND IMPORTS BY 12 PERCENT, AND TOURISM SHOULD DO SOMEWHAT BETTER. FOUR-FIFTHS OF 1976 CAD FINANCED FROM RESERVES, BUT RESERVE USE SHOULD ACCOUNT FOR JUST HALF OF 1977 CAD. DEBT IS STILL AT ACCEPTABLE LEVEL, BUT GOA DOES NOT WANT TREND TO CONTINUE. RE POLICIES, SOME MORAL SUASION TO "BUY AUSTRIAN" CONTEMPLATED, BUT NO IMPORT RESTRICTIONS. AS COULD BE INFERRED FROM STRONG EXPORT GROWTH IN 1976, GOA REP SAW LITTLE SCOPE FOR FURTHER MARGINAL INCREASE

RESULTING FROM HYPOTHETICAL ADDITIONAL 1 PERCENTAGE POINT
INCREASE IN FRG GROWTH.

10. SWEDEN

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1977 CAD WILL BE HIGHER THAN FORESEEN BY SECRETARIAT--
PERHAPS 2.5 BUT POSSIBLY AS HIGH AS 3. AID FLOWS TOTAL
1, BUT GOS PRESUMED NO ONE WANTS THEM TO ADJUST BY RE-
DUCING THIS OUTFLOW. PRIORITY BEING GIVEN TO EMPLOYMENT.
TREND FOR 1978 AND 1979 IS NOT GOOD, BUT SWEDEN SATIS-
FIED THAT IT CAN COPE. FINANCING NEEDS IN 1976 REACHED
4.8 AS, IN ADDITION TO CAD OF 2.4, THERE WERE OUTFLOWS
OF 0.6 ON DIRECT INVESTMENT, 0.1 ON PUBLIC CAPITAL, AND
1.7 ON DEBT REPAYMENT. FINANCING OBTAINED VIA 2.4 IN
LONG TERM BORROWING, 0.75 DECREASE IN RESERVES, 0.4 IN
SHORT TERM BORROWING, AND 1.3 POSITIVE ERRORS AND
OMISSIONS. FINANCING NEEDS IN 1977 WOULD PROBABLY
DECLINE TO 4, WITH SOME CHANGE IN THE PATTERN OF SOURCES.
NO DIFFICULTIES ENCOUNTERED AND NONE FORESEEN. SINCE
1974 FOREIGN DEBT HAS GROWN BY 6, BUT NET ASSET POSITION
OF SWEDEN IS PROBABLY STILL POSITIVE. DEBT SERVICE
AMOUNTS TO 4 TO 5 PERCENT OF EXPORTS. ON POLICIES,

SWEDEN WANTS TO START ADJUSTING NEXT YEAR, AND SHE BE-
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LIEVES IT VITAL THAT FRG AND OTHER STRONG COUNTRIES
STIMULATE THEIR ECONOMIES FURTHER.

11. AUSTRALIA

SECRETARIAT'S 1977 FORECAST MAY BE A LITTLE OPTIMISTIC
AS J-CURVE EFFECT FOR 1976 DEVALUATION WILL BE STRONG.
EXPORT VOLUME WILL NOT GROW RAPIDLY. CAD WILL SHRINK
IN 1978. IN 1976 HALF OF FINANCING WAS PUBLIC AND HALF
PRIVATE. IN 1977 GOVERNMENT WILL STAY OUT OF CAPITAL
MARKETS IN VIEW OF SIZEABLE REVERSAL OF LEADS AND LAGS
WHICH PRECEDED DEVALUATION AND OTHER PRIVATE BORROWINGS.
LIKE NEW ZEALAND, AUSTRALIA WOULD NOT BENEFIT MUCH FROM
GREATER FRG STIMULUS BECAUSE OF TRADE BARRIERS IT FACES.
TURNER

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